GOVERNMENT OF INDIA
AGRICULTURE
LOK SABHA

UNSTARRED QUESTION NO:3956
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RBI REMARKS ON MSP MECHANISM
MAHBOOB ZAHEDI

Will the Minister of AGRICULTURE be pleased to state:

(a) whether the Reserve Bank of India in their annual report remarked against the minimumsupport price mechanism of the Government for food crops since it hinders crop diversification;

(b) if so, the details in this regard;

(c) whether RBI stated that due to reduction in Government investment the agricultureproduction as a whole and employment provision in rural sector got a setback; and

(d) if so, the details thereof and the reaction of the Government?

Answer

MINISTER OF STATE IN THE MINISTRY OF AGRICULTURE (SHRI HUKUMDEO NARAYAN YADAV)

(a) to (d): In their Annual Report 2001-02 the Reserve Bank of India has observed that thepolicy of declaring differential and exogenously determined Minimum Support Prices (MSPs) hasemerged as a major factor inhibiting crop diversification. It has further been observed that the declining public investment in agriculture is resulting in reduced yields and slow down in the growth of rural non-farm employment.

It is not correct to say that MSP mechanism has helped to maintain the prices of rice and wheat at a high level making the cultivation of these two crops more remunerative than pulses and coarse cereals. The production of pulses and coarse cereals has not been remunerative due to poor yield response and not because of low MSP. It is also not true that MSPs of pulses and oilseedsbarely cover the cost of cultivation and are always lower than the market price. The MSP ofoilseeds other than sesamum and those of gram and arhar have always been fixed at levels higher than cost of production. Market prices of several oilseeds have also frequently fallen below MSP requiring price support operations. It is, however, correct to say that market prices of most pulses have almost always remained above MSP, requiring little price intervention. If high market price of pulses could not make their production remunerative, the problem lies with low yield, which itself is the consequence of lack of any technological breakthrough. Failure of technological breakthrough is also responsible for poor response of oilseeds to MSP.

It is also not correct to say that wheat and rice have been removed from the purview of Essential Commodities Act as rice and wheat still continue as essential commodities under the entry `foodstuffs`. However, the requirement of licences, stock limits and movement restrictions on specified foodstuffs has since been dispensed with, with a view to ensuring free trade, unhindered movement of stocks and remunerative prices to the farmers.

The Government is emphasizing crop diversification keeping in view the soil health problems being encountered by growing crops like cereals followed by cereals. The crop diversification is also advocated keeping in view imports of oilseeds and pulses.

Despite decline in capital formation in public sector, the gross capital formation in agriculture, including allied sectors, has been increasing in recent years. This reflects the increase in the capital formation in the private sector.